



# QUARTERLY STATEMENT

AS OF SEPTEMBER 30, 2006  
OF THE CONDITION AND AFFAIRS OF THE

## CAPE HEALTH PLAN, INC.

NAIC Group Code 0000 0000 NAIC Company Code 95759 Employer's ID Number 38-2455176  
(Current Period) (Prior Period)

Organized under the Laws of Michigan, State of Domicile or Port of Entry Michigan

Country of Domicile United States of America

Licensed as business type: Life, Accident & Health [ ] Property/Casualty [ ] Dental Service Corporation [ ]  
Vision Service Corporation [ ] Other [ ] Health Maintenance Organization [ X ]  
Hospital, Medical & Dental Service or Indemnity [ ] Is HMO, Federally Qualified? Yes [ ] No [ X ]

Incorporated/Organized 04/29/1982 Commenced Business 04/29/1982

Statutory Home Office 26711 Northwestern Highway, Suite 300, Southfield, MI 48034  
(Street and Number) (City or Town, State and Zip Code)

Main Administrative Office 26711 Northwestern Highway, Suite 300 Southfield, MI 48034 248-386-3000  
(Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number)

Mail Address 26711 Northwestern Highway, Suite 300, Southfield, MI 48034  
(Street and Number or P.O. Box) (City or Town, State and Zip Code)

Primary Location of Books and Records 26711 Northwestern Highway, Suite 300 Southfield, MI 48034 248-386-3000-3003  
(Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number)

Internet Website Address www.capehealth.com

Statutory Statement Contact Thomas A. Murar 248-386-3000-3003  
(Name) (Area Code) (Telephone Number) (Extension)  
tmurar@capehealth.com 248-945-9149  
(E-mail Address) (FAX Number)

Policyowner Relations Contact 26711 Northwestern Highway Southfield, MI 48034 248-386-3003  
(Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number) (Extension)

### OFFICERS

Name	Title	Name	Title
<u>Roman Kulich</u>	<u>President &amp; Chief Executive Officer</u>	<u>Terry Bayer</u>	<u>Chairperson</u>
<u>Mark Andrews</u>	<u>Secretary</u>	<u>John Molina</u>	<u>Treasurer</u>

### OTHER OFFICERS

<u>Tom Murar</u>	<u>Chief Financial Officer</u>	<u>Nancy Wanchik</u>	<u>Chief Operating Officer</u>
<u>Delores Baker MD</u>	<u>Medical Director</u>	<u>Michele Lundberg</u>	<u>Compliance Officer</u>

### DIRECTORS OR TRUSTEES

<u>Terry Bayer</u>	<u>Mark Andrews</u>	<u>John Molina</u>	<u>Janis Coleman</u>
<u>Roman Kulich</u>	<u>Etrue Bryant</u>	<u>Nancy Wanchik</u>	<u>Thomas Murar</u>
<u>Catherine Brown</u>			

State of Michigan  
County of Macomb SS

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

Mark Andrews  
Secretary

Thomas Murar  
Chief Financial Officer

Roman Kulich  
President & Chief Executive Officer

a. Is this an original filing? Yes [ X ] No [ ]

b. If no,  
1. State the amendment number \_\_\_\_\_  
2. Date filed \_\_\_\_\_  
3. Number of pages attached \_\_\_\_\_

Subscribed and sworn to before me this  
13 day of November, 2006

Linda Rusie, Notary Public  
03/26/2007

STATEMENT AS OF SEPTEMBER 30, 2006 OF THE CAPE HEALTH PLAN, INC.

ASSETS

	Current Statement Date			4 December 31 Prior Year Net Admitted Assets
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	
1. Bonds .....	1,000,000		1,000,000	1,000,000
2. Stocks:				
2.1 Preferred stocks .....			0	0
2.2 Common stocks .....			0	0
3. Mortgage loans on real estate:				
3.1 First liens .....			0	0
3.2 Other than first liens .....			0	0
4. Real estate:				
4.1 Properties occupied by the company (less \$ ..... encumbrances) .....	12,874	12,874	0	5,632
4.2 Properties held for the production of income (less \$ ..... encumbrances) .....			0	0
4.3 Properties held for sale (less \$ ..... encumbrances) .....			0	0
5. Cash (\$ .....41,544,524 ), cash equivalents (\$ .....0 ) and short-term investments (\$ .....0 ) .....	41,544,524		41,544,524	39,738,937
6. Contract loans, (including \$ ..... premium notes)			0	0
7. Other invested assets .....	0	0	0	0
8. Receivables for securities .....			0	0
9. Aggregate write-ins for invested assets .....	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9) .....	42,557,398	12,874	42,544,524	40,744,569
11. Title plants less \$ ..... charged off (for Title insurers only) .....			0	0
12. Investment income due and accrued .....			0	0
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection .....			0	0
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ ..... earned but unbilled premiums) .....			0	0
13.3 Accrued retrospective premiums .....			0	0
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers .....			0	0
14.2 Funds held by or deposited with reinsured companies .....			0	0
14.3 Other amounts receivable under reinsurance contracts .....			0	0
15. Amounts receivable relating to uninsured plans .....			0	0
16.1 Current federal and foreign income tax recoverable and interest thereon .....	383,439		383,439	0
16.2 Net deferred tax asset .....	582,862	569,431	13,431	0
17. Guaranty funds receivable or on deposit .....			0	0
18. Electronic data processing equipment and software .....	218,209	55,445	162,765	243,282
19. Furniture and equipment, including health care delivery assets (\$ ..... ) .....	95,337	95,337	0	30,128
20. Net adjustment in assets and liabilities due to foreign exchange rates .....			0	0
21. Receivables from parent, subsidiaries and affiliates .....			0	0
22. Health care (\$ ..... ) and other amounts receivable .....	772,896		772,896	1,289,804
23. Aggregate write-ins for other than invested assets .....	1,017,541	1,017,541	0	0
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	45,627,682	1,750,627	43,877,055	42,307,783
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts .....			0	0
26. Total (Lines 24 and 25)	45,627,682	1,750,627	43,877,055	42,307,783
<b>DETAILS OF WRITE-INS</b>				
0901. ....				
0902. ....				
0903. ....				
0998. Summary of remaining write-ins for Line 9 from overflow page .....	0	0	0	0
0999. Totals (Lines 0901 through 0903 plus 0998)(Line 9 above)	0	0	0	0
2301. Prepaid Insurance .....	35,145	35,145	0	0
2302. Prepaid Expense .....	120,007	120,007	0	0
2303. Security Deposit .....	3,125	3,125	0	0
2398. Summary of remaining write-ins for Line 23 from overflow page .....	859,264	859,264	0	0
2399. Totals (Lines 2301 through 2303 plus 2398)(Line 23 above)	1,017,541	1,017,541	0	0

STATEMENT AS OF SEPTEMBER 30, 2006 OF THE CAPE HEALTH PLAN, INC.

LIABILITIES, CAPITAL AND SURPLUS

	Current Period			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$ ..... reinsurance ceded)	18,910,366		18,910,366	18,184,006
2. Accrued medical incentive pool and bonus amounts	1,301,008		1,301,008	1,616,787
3. Unpaid claims adjustment expenses	280,321		280,321	243,568
4. Aggregate health policy reserves			0	0
5. Aggregate life policy reserves			0	0
6. Property/casualty unearned premium reserve			0	0
7. Aggregate health claim reserves			0	0
8. Premiums received in advance			0	0
9. General expenses due or accrued	3,581,154		3,581,154	3,815,886
10.1 Current federal and foreign income tax payable and interest thereon (including \$ ..... on realized gains (losses))			0	240,451
10.2 Net deferred tax liability	73,262		73,262	92,341
11. Ceded reinsurance premiums payable			0	0
12. Amounts withheld or retained for the account of others			0	0
13. Remittances and items not allocated			0	0
14. Borrowed money (including \$ ..... current) and interest thereon \$ ..... (including \$ ..... current)			0	0
15. Amounts due to parent, subsidiaries and affiliates			0	0
16. Payable for securities			0	0
17. Funds held under reinsurance treaties with (\$ ..... authorized reinsurers and \$ ..... unauthorized reinsurers)			0	0
18. Reinsurance in unauthorized companies			0	0
19. Net adjustments in assets and liabilities due to foreign exchange rates			0	0
20. Liability for amounts held under uninsured plans			0	0
21. Aggregate write-ins for other liabilities (including \$ ..... current)	0	0	0	0
22. Total liabilities (Lines 1 to 21)	24,146,111	0	24,146,111	24,193,039
23. Aggregate write-ins for special surplus funds	XXX	XXX	0	0
24. Common capital stock	XXX	XXX	2,501,000	2,501,000
25. Preferred capital stock	XXX	XXX		0
26. Gross paid in and contributed surplus	XXX	XXX	1,000,000	0
27. Surplus notes	XXX	XXX		0
28. Aggregate write-ins for other than special surplus funds	XXX	XXX	0	0
29. Unassigned funds (surplus)	XXX	XXX	16,229,943	15,613,744
30. Less treasury stock, at cost:				
30.1 ..... shares common (value included in Line 24) \$ ..... )	XXX	XXX		0
30.2 ..... shares preferred (value included in Line 25) \$ ..... )	XXX	XXX		0
31. Total capital and surplus (Lines 23 to 29 minus Line 30)	XXX	XXX	19,730,943	18,114,744
32. Total liabilities, capital and surplus (Lines 22 and 31)	XXX	XXX	43,877,055	42,307,783
<b>DETAILS OF WRITE-INS</b>				
2101. ....				
2102. ....				
2103. ....				
2198. Summary of remaining write-ins for Line 21 from overflow page	0	0	0	0
2199. Totals (Lines 2101 thru 2103 plus 2198) (Line 21 above)	0	0	0	0
2301. ....	XXX	XXX		
2302. ....	XXX	XXX		
2303. ....	XXX	XXX		
2398. Summary of remaining write-ins for Line 23 from overflow page	XXX	XXX	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above)	XXX	XXX	0	0
2801. ....	XXX	XXX		
2802. ....	XXX	XXX		
2803. ....	XXX	XXX		
2898. Summary of remaining write-ins for Line 28 from overflow page	XXX	XXX	0	0
2899. Totals (Lines 2801 thru 2803 plus 2898) (Line 28 above)	XXX	XXX	0	0

STATEMENT AS OF SEPTEMBER 30, 2006 OF THE CAPE HEALTH PLAN, INC.

STATEMENT OF REVENUE AND EXPENSES

	Current Year To Date		Prior Year To Date
	1 Uncovered	2 Total	3 Total
1. Member Months.....	XXX	786,694	759,085
2. Net premium income (including \$ ..... non-health premium income).....	XXX	136,607,187	133,175,312
3. Change in unearned premium reserves and reserve for rate credits .....	XXX		0
4. Fee-for-service (net of \$ ..... medical expenses) .....	XXX		0
5. Risk revenue .....	XXX		0
6. Aggregate write-ins for other health care related revenues .....	XXX	(8,236,308)	(8,124,252)
7. Aggregate write-ins for other non-health revenues .....	XXX	0	0
8. Total revenues (Lines 2 to 7) .....	XXX	128,370,879	125,051,060
<b>Hospital and Medical:</b>			
9. Hospital/medical benefits .....		69,564,275	67,814,175
10. Other professional services .....		22,034,828	19,364,739
11. Outside referrals .....			0
12. Emergency room and out-of-area .....		9,288,425	8,590,910
13. Prescription drugs .....		18,060,054	17,146,679
14. Aggregate write-ins for other hospital and medical.....	0	0	0
15. Incentive pool, withhold adjustments and bonus amounts.....		975,000	675,000
16. Subtotal (Lines 9 to 15) .....	0	119,922,582	113,591,503
<b>Less:</b>			
17. Net reinsurance recoveries .....			0
18. Total hospital and medical (Lines 16 minus 17) .....	0	119,922,582	113,591,503
19. Non-health claims (net).....			0
20. Claims adjustment expenses, including \$ ..... cost containment expenses.....		713,542	567,967
21. General administrative expenses.....		8,569,303	8,314,003
22. Increase in reserves for life and accident and health contracts including \$ ..... increase in reserves for life only).....			0
23. Total underwriting deductions (Lines 18 through 22) .....	0	129,205,427	122,473,473
24. Net underwriting gain or (loss) (Lines 8 minus 23) .....	XXX	(834,547)	2,577,588
25. Net investment income earned .....		1,306,293	764,691
26. Net realized capital gains (losses) less capital gains tax of \$ .....			0
27. Net investment gains (losses) (Lines 25 plus 26) .....	0	1,306,293	764,691
28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$ ..... ) (amount charged off \$ ..... )] .....			0
29. Aggregate write-ins for other income or expenses .....	0	1,218	1,509
30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29) .....	XXX	472,963	3,343,788
31. Federal and foreign income taxes incurred .....	XXX	139,140	1,121,350
32. Net income (loss) (Lines 30 minus 31) .....	XXX	333,824	2,222,438
<b>DETAILS OF WRITE-INS</b>			
0601. Provider Tax (QAAP).....	XXX	(8,236,308)	(8,124,252)
0602. ....	XXX		
0603. ....	XXX		
0698. Summary of remaining write-ins for Line 6 from overflow page .....	XXX	0	0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above) .....	XXX	(8,236,308)	(8,124,252)
0701. ....	XXX		
0702. ....	XXX		
0703. ....	XXX		
0798. Summary of remaining write-ins for Line 7 from overflow page .....	XXX	0	0
0799. Totals (Lines 0701 thru 0703 plus 0798) (Line 7 above) .....	XXX	0	0
1401. ....			
1402. ....			
1403. ....			
1498. Summary of remaining write-ins for Line 14 from overflow page .....	0	0	0
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above) .....	0	0	0
2901. Miscellaneous Income.....		1,218	1,509
2902. ....			
2903. ....			
2998. Summary of remaining write-ins for Line 29 from overflow page .....	0	0	0
2999. Totals (Lines 2901 thru 2903 plus 2998) (Line 29 above) .....	0	1,218	1,509

## STATEMENT OF REVENUE AND EXPENSES (Continued)

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year
<b>CAPITAL AND SURPLUS ACCOUNT:</b>			
33. Capital and surplus prior reporting year.....	18,114,743	14,685,012	14,685,012
34. Net income or (loss) from Line 32.....	333,824	2,222,438	2,803,374
35. Change in valuation basis of aggregate policy and claim reserves.....		0	0
36. Change in net unrealized capital gains (losses) less capital gains tax of \$.....		0	0
37. Change in net unrealized foreign exchange capital gain or (loss).....		0	0
38. Change in net deferred income tax.....		0	0
39. Change in nonadmitted assets.....	282,377	403,600	626,358
40. Change in unauthorized reinsurance.....	0	0	0
41. Change in treasury stock.....		0	0
42. Change in surplus notes.....	0	0	0
43. Cumulative effect of changes in accounting principles.....		0	0
44. Capital Changes:			
44.1 Paid in.....	1,000,000	0	0
44.2 Transferred from surplus (Stock Dividend).....		0	0
44.3 Transferred to surplus.....		0	0
45. Surplus adjustments:			
45.1 Paid in.....		0	0
45.2 Transferred to capital (Stock Dividend).....	0	0	0
45.3 Transferred from capital.....		0	0
46. Dividends to stockholders.....		0	0
47. Aggregate write-ins for gains or (losses) in surplus.....	0	0	0
48. Net change in capital & surplus (Lines 34 to 47).....	1,616,200	2,626,037	3,429,732
49. Capital and surplus end of reporting period (Line 33 plus 48)	19,730,943	17,311,049	18,114,743
<b>DETAILS OF WRITE-INS</b>			
4701. ....			
4702. ....			
4703. ....			
4798. Summary of remaining write-ins for Line 47 from overflow page.....	0	0	0
4799. Totals (Lines 4701 thru 4703 plus 4798) (Line 47 above)	0	0	0

STATEMENT AS OF SEPTEMBER 30, 2006 OF THE CAPE HEALTH PLAN, INC.

CASH FLOW

	1 Current Year To Date	2 Prior Year Ended December 31
<b>Cash from Operations</b>		
1. Premiums collected net of reinsurance.....	136,607,187	178,915,436
2. Net investment income .....	1,306,293	1,103,436
3. Miscellaneous income .....	(8,236,308)	(10,840,705)
4. Total (Lines 1 to 3) .....	129,677,172	169,178,167
5. Benefits and loss related payments .....	118,995,093	151,699,304
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts.....	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions .....	9,479,607	11,613,760
8. Dividends paid to policyholders .....	0	0
9. Federal and foreign income taxes paid (recovered) \$ ..... net of tax on capital gains (losses)	894,362	1,515,594
10. Total (Lines 5 through 9) .....	129,369,062	164,828,658
11. Net cash from operations (Line 4 minus Line 10) .....	308,111	4,349,509
<b>Cash from Investments</b>		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds .....	0	690,000
12.2 Stocks .....	0	0
12.3 Mortgage loans .....	0	0
12.4 Real estate .....	0	0
12.5 Other invested assets .....	0	0
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments .....	0	0
12.7 Miscellaneous proceeds .....	9,656	12,874
12.8 Total investment proceeds (Lines 12.1 to 12.7) .....	9,656	702,874
13. Cost of investments acquired (long-term only):		
13.1 Bonds .....	0	690,000
13.2 Stocks .....	0	0
13.3 Mortgage loans .....	0	0
13.4 Real estate .....	0	0
13.5 Other invested assets .....	0	0
13.6 Miscellaneous applications .....	0	0
13.7 Total investments acquired (Lines 13.1 to 13.6) .....	0	690,000
14. Net increase (or decrease) in contract loans and premium notes .....	0	0
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14) .....	9,656	12,874
<b>Cash from Financing and Miscellaneous Sources</b>		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes .....	0	0
16.2 Capital and paid in surplus, less treasury stock .....	1,000,000	0
16.3 Borrowed funds .....	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities .....	0	0
16.5 Dividends to stockholders .....	0	0
16.6 Other cash provided (applied).....	487,821	998,357
17. Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6) .....	1,487,821	998,357
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>		
18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Lines 15 and 17) .....	1,805,587	5,360,741
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year.....	39,738,937	34,378,196
19.2 End of period (Line 18 plus Line 19.1) .....	41,544,524	39,738,937

STATEMENT AS OF SEPTEMBER 30, 2006 OF THE CAPE HEALTH PLAN, INC.

EXHIBIT OF PREMIUMS, ENROLLMENT AND UTILIZATION

	1 Total	Comprehensive (Hospital & Medical)		4 Medicare Supplement	5 Vision Only	6 Dental Only	7 Federal Employees Health Benefit Plan	8 Title XVIII Medicare	9 Title XIX Medicaid	10 Stop Loss	11 Disability Income	12 Long-Term Care	13 Other
		2 Individual	3 Group										
<b>Total Members at end of:</b>													
1. Prior Year .....	88,059	423	0	0	0	0	0	0	87,636	0	0	0	0
2. First Quarter .....	88,701	448							88,253				
3. Second Quarter .....	87,906	435							87,471				
4. Third Quarter .....	84,791	325							84,466				
5. Current Year	0												
6. Current Year Member Months	786,694	3,871							782,823				
<b>Total Member Ambulatory Encounters for Period:</b>													
7. Physician .....	275,707	718							274,989				
8. Non-Physician .....	186,840	429							186,411				
9. Total	462,547	1,147	0	0	0	0	0	0	461,400	0	0	0	0
10. Hospital Patient Days Incurred	31,024	62							30,962				
11. Number of Inpatient Admissions	7,387	15							7,372				
12. Health Premiums Written .....	136,607,187	300,524							136,306,663				
13. Life Premiums Direct .....	0												
14. Property/Casualty Premiums Written .....	0												
15. Health Premiums Earned .....	136,607,187	300,524							136,306,663				
16. Property/Casualty Premiums Earned .....	0												
17. Amount Paid for Provision of Health Care Services .....	118,221,222	169,334							118,051,888				
18. Amount Incurred for Provision of Health Care Services	119,922,582	171,471							119,751,110				

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STATEMENT AS OF SEPTEMBER 30, 2006 OF THE CAPE HEALTH PLAN, INC.

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE**

Line of Business	Claims Paid Year to Date		Liability End of Current Quarter		5 Claims Incurred in Prior Years (Columns 1 + 3)	6 Estimated Claim Reserve and Claim Liability Dec. 31 of Prior Year
	1	2	3	4		
	On Claims Incurred Prior to January 1 of Current Year	On Claims Incurred During the Year	On Claims Unpaid Dec. 31 of Prior Year	On Claims Incurred During the Year		
1. Comprehensive (hospital & medical) .....	24,090	145,243	5,910	26,228	30,000	30,000
2. Medicare Supplement .....					.0	.0
3. Dental Only .....					.0	.0
4. Vision Only .....					.0	.0
5. Federal Employees Health Benefits Plan .....					.0	.0
6. Title XVIII - Medicare .....					.0	.0
7. Title XIX - Medicaid .....	16,794,723	101,257,166	1,359,284	17,518,945	18,154,006	18,154,006
8. Other Health .....					.0	.0
9. Health Subtotal (Lines 1 to 8).....	16,818,813	101,402,409	1,365,193	17,545,173	18,184,006	18,184,006
10. Healthcare receivables (a) .....					.0	.0
11. Other non-health .....					.0	.0
12. Medical incentive pools and bonus amounts .....	1,290,778		326,008	975,000	1,616,787	1,616,787
13. Totals	18,109,591	101,402,409	1,691,202	18,520,173	19,800,793	19,800,793

(a) Excludes \$ ..... loans and advances to providers not yet expensed.

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## NOTES TO FINANCIAL STATEMENTS

**These statements have not been completed in accordance with the NAIC Accounting Practices and Procedures Manual. The Commissioner of the State of Michigan Office of Financial and Insurance Services issued the following notification regarding reporting:**

By Order 00-086-M dated November 15, 2000, the Commissioner adopted the NAIC Accounting Practices and Procedures Manual effective January 1, 2001, including appendices A - F and excluding Actuarial Guideline XXXV in Appendix C. This order applied to fire and casualty insurers, life, accident, and health insurers, non-U.S. insurers, title insurers and fraternal benefit societies. For health maintenance organizations and alternative financing and delivery systems and dental service corporations, the Commissioner had delayed adoption of the NAIC Accounting Practices and Procedures Manual with an effective date of January 1, 2002. Effective January 1, 2003, these procedures were adopted to be applied to HMOs in a phased manner. Following are the salient features, per letter dated December 4, 2002, of the transitional application of these procedures:

- 1) SSAP 16: Electronic Data Processing Equipment and Software:  
 The aggregate amount of admitted EDP equipment and operating system software (net of depreciation) shall be limited to the following percentage of the reporting entity's capital and surplus:
- |                           |     |
|---------------------------|-----|
| Effective January 1, 2003 | 25% |
| Effective January 1, 2004 | 15% |
| Effective January 1, 2005 | 5%  |

Effective January 1, 2006, the requirements of SSAP 16 will be fully adopted.

- 2) SSAP 19: Furniture and Equipment; Leasehold Improvements Paid by the Reporting Entity as Lessee; Depreciation of Property and Amortization of Leasehold Improvements  
 The reporting entity will be permitted to report as an admitted asset the following percentage of its book value of furniture and equipment and leasehold improvements:
- |                           |     |
|---------------------------|-----|
| Effective January 1, 2003 | 85% |
| Effective January 1, 2004 | 55% |
| Effective January 1, 2005 | 25% |

Effective January 1, 2006, the requirements of SSAP 19 will be fully adopted.

- 3) SSAP 84: Certain Health Care Receivables and Receivables Under Government Insured Plans

Loans or advances to large hospitals or other providers are not permitted.

SSAP 84 assumes states would adopt codification effective 2001 and therefore, NAIC transitions no longer apply effective January 1, 2003. OFIS will extend these transitions another year. For pharmaceuticals and risk sharing receivables, the transitions will expire on invoices prior to January 1, 2004. Entities are expected to renegotiate their contracts with pharmacy benefit managers and providers to comply with the requirements of SSAP 84 for future reporting periods.

### 10. Information Concerning Parent, Subsidiaries and Affiliates

The common stock of CAPE Health Plan's parent HCLB, Inc. was acquired by Molina Healthcare of Michigan, Inc. effective May 15, 2006 for a purchase price of Forty One million Six Hundred Thousand Dollars (\$41,600,000.00).

## GENERAL INTERROGATORIES

(Responses to these interrogatories should be based on changes that have occurred since the prior year end unless otherwise noted.)

### PART 1 - COMMON INTERROGATORIES GENERAL

- 1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act? ..... Yes [ ] No [X]
- 1.2 If yes, has the report been filed with the domiciliary state? ..... Yes [ ] No [ ]
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? ..... Yes [ ] No [X]
- 2.2 If yes, date of change: .....  
If not previously filed, furnish herewith a certified copy of the instrument as amended.
3. Have there been any substantial changes in the organizational chart since the prior quarter end? ..... Yes [ ] No [X]  
If yes, complete the Schedule Y - Part 1 - organizational chart.
- 4.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? ..... Yes [ ] No [X]
- 4.2 If yes, provide the name of entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile

5. If the reporting entity is subject to a management agreement, including third-party administrator(s), managing general agent(s), attorney-in-fact, or similar agreement, have there been any significant changes regarding the terms of the agreement or principals involved? ..... Yes [ ] No [X] NA [ ]  
If yes, attach an explanation.
- 6.1 State as of what date the latest financial examination of the reporting entity was made or is being made. .... 12/31/2002
- 6.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. .... 12/31/2002
- 6.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). .... 06/07/2004
- 6.4 By what department or departments?  
OFFICE OF FINANCIAL AND INSURANCE SERVICES, STATE OF MICHIGAN.....
- 7.1 Has this reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? ..... Yes [ ] No [X]
- 7.2 If yes, give full information:  
.....
- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? ..... Yes [ ] No [X]
- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.  
.....
- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms? ..... Yes [ ] No [X]
- 8.4 If response to 8.3 is yes, please provide below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.]

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC

## GENERAL INTERROGATORIES

### FINANCIAL

- 9.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes [ ] No [X]
- 9.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: ..... \$ .....

### INVESTMENT

- 10.1 Has there been any change in the reporting entity's own preferred or common stock? ..... Yes [ ] No [X]
- 10.2 If yes, explain:  
.....

- 11.1 Were any of the stocks, bonds, or other assets of the reporting entity loaned, placed under option agreement, or otherwise made available for use by another person? (Exclude securities under securities lending agreements.) ..... Yes [ ] No [X]

11.2 If yes, give full and complete information relating thereto:  
.....

12. Amount of real estate and mortgages held in other invested assets in Schedule BA: ..... \$ .....

13. Amount of real estate and mortgages held in short-term investments: ..... \$ .....

- 14.1 Does the reporting entity have any investments in parent, subsidiaries and affiliates? ..... Yes [ ] No [X]

14.2 If yes, please complete the following:

	1 Prior Year-End Book/Adjusted Carrying Value	2 Current Quarter Statement Value
14.21 Bonds .....	\$ .....	\$ .....
14.22 Preferred Stock .....	\$ .....	\$ .....
14.23 Common Stock .....	\$ .....	\$ .....
14.24 Short-Term Investments .....	\$ .....	\$ .....
14.25 Mortgage Loans on Real Estate .....	\$ .....	\$ .....
14.26 All Other .....	\$ .....	\$ .....
14.27 Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Lines 14.21 to 14.26).....	\$ ..... 0	\$ ..... 0
14.28 Total Investment in Parent included in Lines 14.21 to 14.26 above .....	\$ .....	\$ .....

- 15.1 Has the reporting entity entered into any hedging transactions reported on Schedule DB? ..... Yes [ ] No [X]

- 15.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? ..... Yes [ ] No [ ]

If no, attach a description with this statement.

16. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1 - General, Section IV.H - Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? ..... Yes [ ] No [X]

16.1 For all agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian Address

16.2 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

- 16.3 Have there been any changes, including name changes in the custodian(s) identified in 16.1 during the current quarter? ..... Yes [ ] No [X]

16.4 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

16.5 Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository	2 Name(s)	3 Address

- 17.1 Have all the filing requirements of the *Purposes and Procedures Manual* of the NAIC Securities Valuation Office been followed? ..... Yes [X] No [ ]

17.2 If no, list exceptions:  
.....

### SCHEDULE A - VERIFICATION

Real Estate

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year	22,530	35,404
2. Increase (decrease) by adjustment	(9,656)	(12,874)
3. Cost of acquired	0	0
4. Cost of additions to and permanent improvements	0	0
5. Total profit (loss) on sales	0	0
6. Increase (decrease) by foreign exchange adjustment	0	0
7. Amount received on sales	0	0
8. Book/adjusted carrying value at end of current period	12,874	22,530
9. Total valuation allowance	0	0
10. Subtotal (Lines 8 plus 9)	12,874	22,530
11. Total nonadmitted amounts	12,874	16,897
12. Statement value, current period (Page 2, real estate lines, Net Admitted Assets column)	0	5,632

### SCHEDULE B – VERIFICATION

Mortgage Loans

	1 Year to Date	2 Prior Year Ended December 31
<b>NONE</b>		
1. Book value/recorded investment excluding accrued interest on mortgages owned, September 30 of prior year	0	0
2. Amount loaned during period:		
2.1. Actual cost at time of acquisitions	0	0
2.2. Additional investment made after acquisitions	0	0
3. Accrual of discount and mortgage interest points and commitment fees	0	0
4. Increase (decrease) by adjustment	0	0
5. Total profit (loss) on sale	0	0
6. Amounts paid on account or in full during the period	0	0
7. Amortization of premium	0	0
8. Increase (decrease) by foreign exchange adjustment	0	0
9. Book value/recorded investment excluding accrued interest on mortgages owned at end of current period	0	0
10. Total valuation allowance	0	0
11. Subtotal (Lines 9 plus 10)	0	0
12. Total nonadmitted amounts	0	0
13. Statement value of mortgages owned at end of current period (Page 2, mortgage lines, Net Admitted Assets column)	0	0

### SCHEDULE BA – VERIFICATION

Other Invested Assets

	1 Year to Date	2 Prior Year Ended December 31
<b>NONE</b>		
1. Book/adjusted carrying value of long-term invested assets owned December 31 of prior year	0	0
2. Cost of acquisitions during period:		
2.1. Actual cost at time of acquisitions	0	0
2.2. Additional investment made after acquisitions	0	0
3. Accrual of discount	0	0
4. Increase (decrease) by adjustment	0	0
5. Total profit (loss) on sale	0	0
6. Amounts paid on account or in full during the period	0	0
7. Amortization of premium	0	0
8. Increase (decrease) by foreign exchange adjustment	0	0
9. Book/adjusted carrying value of long-term invested assets at end of current period	0	0
10. Total valuation allowance	0	0
11. Subtotal (Lines 9 plus 10)	0	0
12. Total nonadmitted amounts	0	0
13. Statement value of long-term invested assets at end of current period (Page 2, Line 7, Column 3)	0	0

### SCHEDULE D – VERIFICATION

Bonds and Stocks

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value of bonds and stocks, December 31 of prior year	1,000,000	1,000,000
2. Cost of bonds and stocks acquired	200,000	690,000
3. Accrual of discount	0	0
4. Increase (decrease) by adjustment	0	0
5. Increase (decrease) by foreign exchange adjustment	0	0
6. Total profit (loss) on disposal	0	0
7. Consideration for bonds and stocks disposed of	200,000	690,000
8. Amortization of premium	0	0
9. Book/adjusted carrying value, current period	1,000,000	1,000,000
10. Total valuation allowance	0	0
11. Subtotal (Lines 9 plus 10)	1,000,000	1,000,000
12. Total nonadmitted amounts	0	0
13. Statement value	1,000,000	1,000,000

STATEMENT AS OF SEPTEMBER 30, 2006 OF THE CAPE HEALTH PLAN, INC.

**SCHEDULE D - PART 1B**

Showing the Acquisitions, Dispositions and Non-Trading Activity  
During the Current Quarter for all Bonds and Preferred Stock by Rating Class

	1 Book/Adjusted Carrying Value Beginning of Current Quarter	2 Acquisitions During Current Quarter	3 Dispositions During Current Quarter	4 Non-Trading Activity During Current Quarter	5 Book/Adjusted Carrying Value End of First Quarter	6 Book/Adjusted Carrying Value End of Second Quarter	7 Book/Adjusted Carrying Value End of Third Quarter	8 Book/Adjusted Carrying Value December 31 Prior Year
<b>BONDS</b>								
1. Class 1 .....	1,000,000	0	0		1,000,000	1,000,000	1,000,000	1,000,000
2. Class 2 .....	0				0	0	0	0
3. Class 3 .....	0				0	0	0	0
4. Class 4 .....	0				0	0	0	0
5. Class 5 .....	0				0	0	0	0
6. Class 6 .....	0				0	0	0	0
7. Total Bonds	1,000,000	0	0	0	1,000,000	1,000,000	1,000,000	1,000,000
<b>PREFERRED STOCK</b>								
8. Class 1 .....	0				0	0	0	0
9. Class 2 .....	0				0	0	0	0
10. Class 3 .....	0				0	0	0	0
11. Class 4 .....	0				0	0	0	0
12. Class 5 .....	0				0	0	0	0
13. Class 6 .....	0				0	0	0	0
14. Total Preferred Stock	0	0	0	0	0	0	0	0
15. Total Bonds and Preferred Stock	1,000,000	0	0	0	1,000,000	1,000,000	1,000,000	1,000,000

Schedule DA - Part 1

**NONE**

Schedule DA - Part 2

**NONE**

Schedule DB - Part F - Section 1

**NONE**

Schedule DB - Part F - Section 2

**NONE**



**SCHEDULE T PREMIUMS AND OTHER CONSIDERATIONS**

Current Year to Date - Allocated by States and Territories

States, Etc.	1	2	Direct Business Only Year-to-Date					
			3	4	5	6	7	8
	Guaranty Fund (Yes or No)	Is Insurer Licensed? (Yes or No)	Accident and Health Premiums	Medicare Title XVIII	Medicaid Title XIX	Federal Employees Health Benefit Program Premiums	Life and Annuity Premiums and Deposit-Type Contract Funds	Property/Casualty Premiums
1. Alabama	AL	No						
2. Alaska	AK	No						
3. Arizona	AZ	No						
4. Arkansas	AR	No						
5. California	CA	No						
6. Colorado	CO	No						
7. Connecticut	CT	No						
8. Delaware	DE	No						
9. District of Columbia	DC	No						
10. Florida	FL	No						
11. Georgia	GA	No						
12. Hawaii	HI	No						
13. Idaho	ID	No						
14. Illinois	IL	No						
15. Indiana	IN	No						
16. Iowa	IA	No						
17. Kansas	KS	No						
18. Kentucky	KY	No						
19. Louisiana	LA	No						
20. Maine	ME	No						
21. Maryland	MD	No						
22. Massachusetts	MA	No						
23. Michigan	MI	No	Yes	300,524		136,306,663		
24. Minnesota	MN	No						
25. Mississippi	MS	No						
26. Missouri	MO	No						
27. Montana	MT	No						
28. Nebraska	NE	No						
29. Nevada	NV	No						
30. New Hampshire	NH	No						
31. New Jersey	NJ	No						
32. New Mexico	NM	No						
33. New York	NY	No						
34. North Carolina	NC	No						
35. North Dakota	ND	No						
36. Ohio	OH	No						
37. Oklahoma	OK	No						
38. Oregon	OR	No						
39. Pennsylvania	PA	No						
40. Rhode Island	RI	No						
41. South Carolina	SC	No						
42. South Dakota	SD	No						
43. Tennessee	TN	No						
44. Texas	TX	No						
45. Utah	UT	No						
46. Vermont	VT	No						
47. Virginia	VA	No						
48. Washington	WA	No						
49. West Virginia	WV	No						
50. Wisconsin	WI	No						
51. Wyoming	WY	No						
52. American Samoa	AS	No						
53. Guam	GU	No						
54. Puerto Rico	PR	No						
55. U.S. Virgin Islands	VI	No						
56. Northern Mariana Islands	MP							
57. Canada	CN	No						
58. Aggregate Other Alien	OT	XXX	XXX	0	0	0	0	0
59. Subtotal		XXX	XXX	300,524	0	136,306,663	0	0
60. Reporting entity contributions for Employee Benefit Plans		XXX	XXX					
61. Total (Direct Business)		XXX	(a) 1	300,524	0	136,306,663	0	0
<b>DETAILS OF WRITE-INS</b>								
5801.								
5802.								
5803.								
5898. Summary of remaining write-ins for Line 58 from overflow page				0	0	0	0	0
5899. Totals (Lines 5801 through 5803 plus 5898) (Line 58 above)				0	0	0	0	0

(a) Insert the number of yes responses except for Canada and other Alien.

**SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A  
HOLDING COMPANY GROUP  
PART 1 - ORGANIZATIONAL CHART**

Molina Healthcare, Inc.  
Tax ID: 13-4204626

Subsidiary  
Molina Healthcare of Michigan, Inc.  
Tax ID: 38-3341599

Subsidiary  
HCLB, Inc.  
Tax ID: 38-3535959

Subsidiary  
CAPE health Plan, Inc.  
Licensed HMO - State of Michigan  
Tax ID: 38-2455176

**OVERFLOW PAGE FOR WRITE-INS**

MQ002 Additional Aggregate Lines for Page 02 Line 23.

\*ASSETS

	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	Prior Year Net Admitted Assets
2304. Members List.....	624,985	624,985	0	0
2305. Pharmacy Rebate Receivable.....	234,279	234,279	0	0
2397. Summary of remaining write-ins for Line 23 from Page 02	859,264	859,264	0	0

Schedule A - Part 2

**NONE**

Schedule A - Part 3

**NONE**

Schedule B - Part 1

**NONE**

Schedule B - Part 2

**NONE**

Schedule BA - Part 1

**NONE**

Schedule BA - Part 2

**NONE**

Schedule D - Part 3

**NONE**

Schedule D - Part 4

**NONE**

Schedule DB - Part A - Section 1

**NONE**

Schedule DB - Part B - Section 1

**NONE**

Schedule DB - Part C - Section 1

**NONE**

Schedule DB - Part D - Section 1

**NONE**



**SCHEDULE E - PART 2 CASH EQUIVALENTS**

Showing Investments Owned End of Current Quarter

1 CUSIP Identification	2 Description	3 Code	4 Date Acquired	5 Rate of Interest	6 Maturity Date	7 Book/Adjusted Carrying Value	8 Amount of Interest Due and Accrued	9 Gross Investment Income
<b>NONE</b>								
0199999 Total Cash Equivalents								